



OFFICE OF THE
HEALTH INSURANCE COMMISSIONER
STATE OF RHODE ISLAND

May 28, 2008

John Lynch
Chief Actuary
Blue Cross & Blue Shield of Rhode Island
444 Westminster Mall
Providence, RI 02903-3279

Re: Claims Projection and Reserve Factors Applicable to Blue Cross & Blue Shield of Rhode Island's Large Group Subscription Rate Renewals Effective October 1, 2008 through December 1, 2009 and Required Early Notice Renewals Effective January 1, 2010 (Forms on File), filed May 27, 2008.

Dear Mr. Lynch:

Upon examination of the above-referenced filing and accompanying affordability report, the Office of the Health Insurance Commissioner has determined that the filing should be, and therefore is, approved.

If you have any questions, please feel free to call me.

Very truly yours,

Christopher F. Koller
Health Insurance Commissioner

cc: James Purcell

Protecting Consumers • Assuring Solvency • Engaging Providers • Improving the System

Office of the Health Insurance Commissioner
233 Richmond Street, Suite 237 • Providence, RI 02903-4237
401.222.5424 • 401.222.6098 fax • TTY: 711

**BLUE CROSS & BLUE SHIELD OF RHODE ISLAND
AMENDED LARGE GROUP RATE/TREND FILING
RENEWALS EFFECTIVE OCTOBER 1, 2008 THROUGH DECEMBER 1, 2009 AND
REQUIRED EARLY NOTICE RENEWALS EFFECTIVE JANUARY 1, 2010**

1. Historical Information

Experience Period for Developing Rates		
	From	To
For Trend Development	12/2004	11/2007
For Rate Increase Estimate Development	11/2006	10/2007

Utilization data by Quarter: 12-month moving averages ⁽¹⁾					
Quarter	End Date	IP Days/1000	OP PMPM ⁽²⁾	S/M PMPM ⁽²⁾	Rx PMPM ⁽³⁾
1	2/2006	277.2	\$55.46	\$106.30	\$48.06
2	5/2006	275.5	\$55.84	\$107.77	\$49.81
3	8/2006	277.3	\$55.89	\$108.80	\$51.24
4	11/2006	277.6	\$55.99	\$110.47	\$52.75
5	2/2007	280.6	\$56.41	\$112.15	\$54.43
6	5/2007	283.1	\$56.46	\$113.29	\$55.51
7	8/2007	282.4	\$56.76	\$114.66	\$56.87
8	11/2007	285.2	\$57.07	\$115.98	\$57.94

- ⁽¹⁾ Data is derived from large group (insured and most self-insured groups) and small group classes. Data is normalized for known one-time changes in claim costs such as new benefits and availability of specific drugs in generic form. Reflects data used in development of filed utilization trend for Inpatient, utilization/mix trend for Outpatient and Surgical/Medical, and price/utilization/mix trend for Prescription Drug.
- ⁽²⁾ Claims for Outpatient and Surgical/Medical are deprecised to the level of reimbursement at 12/1/2004, the beginning of the experience period used in trend analysis.
- ⁽³⁾ Rx PMPMs reflect a copay level of \$7 generic, \$25 brand, and \$40 non-formulary, the most common benefit design for large groups.

2. Trend Factors for Projection Purposes (Annualized) are shown in the tables below. Projection Factor detail is found in Exhibit III.

CY 2009 over CY2008					
	IP	OP	S/M	MM	Rx
Total	9.02%	7.86%	9.22%	15.52% ⁽³⁾	10.50% ⁽³⁾
Price Only	Intentionally Omitted				
Utilization					
Mix ⁽¹⁾					

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CY 2010 over CY2009					
	IP	OP	S/M	MM	Rx
Total	8.92%	7.88%	8.55%	15.52% ⁽³⁾	10.50% ⁽³⁾
Price Only	Intentionally Omitted				
Utilization					
Mix ⁽¹⁾					

- (1) Inpatient Mix is the measure of effect on average cost per day due to changes in average intensity of service, type of service, and hospital provider.
- (2) Outpatient and Surgical/Medical utilization trends also incorporate mix.
- (3) Major Medical and Prescription Drug Total trends are aggregate measures including price, utilization, and mix. Major Medical comprises less than one percent of total claims costs. Note that the 10.50% Rx trend does not include a one-time reduction in cost of 3.7% due to negotiation of a new PBM contract effective January 1, 2009.

3. Information for the period to which the filing applies.

Quarter	Beginning Date	Estimated Average % Rate Increase ⁽¹⁾	Expected Medical Loss Ratio	Expected Contribution to Reserves ⁽²⁾	Estimated Administrative Expense ⁽²⁾
1	10/1/2008 ⁽³⁾	7.9%	87.35%	1.35%	11.3%
2	1/1/2009	7.9%	87.05%	1.35%	11.6%
3	4/1/2009	7.9%	87.15%	1.35%	11.5%
4	7/1/2009	7.8%	87.15%	1.35%	11.5%
5	10/1/2009 ⁽³⁾	7.3%	87.15%	1.35%	11.5%

- (1) Rate Increases are estimated based on current experience and rates. Actual increases will differ due to use of updated experience, cancellations, new business, etc.
- (2) Contribution to reserves and estimated administrative expense are expressed as a percent of premium for the period to which the filing applies. Reserve includes 0.35% for funding of the core system replacement project. Administrative expense incorporates federal and state taxes and assessments, broker commissions, and investment income credit.
- (3) Includes selected accounts effective January of the following year for which early premium rate commitments are required.

4. For the purposes of developing the medical loss ratio, incurred claims and earned premium were developed utilizing large group rating simulations in accordance with our filed and approved Large Group Renewal Rating Procedure and employing latest available experience.

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Incurred Claims

The calculation of Incurred Claims is based on the incurred claims expense for prospectively rated large employers for the experience period November 2006 through October 2007, with large claims capped and the excess claims pooled:

- a) Claims are brought to the 100% incurred and projected level through the application of Incurred But Not Reported (IBNR) factors and projected to the applicable rate year, each by respective claims expense category.
- b) Capitation payments applicable to the rate year are added in for certain services not reflected in base claims experience, such as payments to PCPs.
- c) Provider adjustments are applied for estimated lump-sum provider payments.

Earned Premium

Earned Premium is calculated from Incurred Claims as described above with the following PMPMs and factors applied:

- a) General Office Expense PMPM, scaled to reflect the accounts included in the estimate.
- b) Claims Handling Expense PMPM, scaled to reflect average relative claims volume for the accounts included.
- c) Investment Income credit.
- d) Reserve Contribution Factor including 0.35% for funding the core system replacement project.
- e) Federal Income Tax plus State Premium Tax Factor.